



COUNCILMEMBER CARL DEMaIO

FIFTH DISTRICT
CITY OF SAN DIEGO

MEMORANDUM

DATE: May 12, 2009

TO: Honorable Mayor

CC: City Councilmembers
City Attorney
CCDC Board of Directors

FROM: Councilmember Carl DeMaio *Carl DeMaio*

RE: Additional Concerns Regarding New City Hall Project

Since the proposal of building a new City Hall first surfaced, I have raised concerns about the financial representations being made by project backers. Already the initial financial representations on this project have had to be revised by the Ernst and Young (E & Y) peer review report.

Based solely on the revised numbers from the E & Y review, I have maintained that the City should abandon this project in its current form to focus on getting its own fiscal house in order and making progress on neighborhood infrastructure problems.

Now comes word of even more potential problems with the financial projections for this project.

- **Project Comparisons Overstate Lease Rates:** Two of the City's own commercial lease advisors today delivered a letter to the City Council stating "we unequivocally conclude that the proposed project will cost significantly more than is being portrayed." (See Attachment A)

The letter outlines evidence that the City is using inflated rates for leases in the "Hold Steady" proposal, which makes the redevelopment proposal appear more advantageous. When adjusting just two of the lease rates used in the model to correspond with market conditions, these experts conclude that the claimed



savings were inflated by more than \$40 million over the first 15 years. Please keep in mind that this figure only pertains to two of the leases – this number is likely to climb as other lease proposals are similarly scrutinized.

Action Item Requested: I request that the City’s Real Estate Assets Department (READ) publicly release all lease data so further independent market analysis can be performed. Additionally, I request that CCDC review and respond to the Irving-Hughes analysis.

- **Project Comparisons Use Different City Hall Developments:** In reviewing CCDC’s revised financial forecasts on the project, my office discovered an “apples-to-oranges” comparison between the City Halls built in the Hold Steady scenario and the redevelopment proposal – that unjustifiably benefits the redevelopment proposal by tens of millions of dollars. (See Attachment B) In response, CCDC confirmed the variation in City Hall model used, but refuses to augment their financial forecast accordingly. (See Attachment C)

Action Item Requested: I request that CCDC be instructed to use an “apples-to-apples” comparison between similar City Hall models – including a master lease structure of two identically-sized buildings – in their comparisons between the redevelopment proposal and the Hold Steady scenario.

- **Accounting of Taxpayer Funds Spent To-Date:** During the May 7th Budget Committee Hearing, I confirmed that CCDC has spent northwards of \$2 million to date on the proposed City Hall. This likely includes monies for an advocacy campaign by a local public relations firm – as well as staff time expended for media interviews and endorsement meetings.

Action Item Requested: I request that CCDC fulfill my request made at the May 7th Budget Committee Hearing for a full accounting of their expenses to date on this project. Furthermore, I respectfully request that the Mayor’s Office instruct CCDC to discontinue any activities that constitute, or may provide the appearance of, lobbying or advocacy on this project at taxpayers’ expense.

- **Details on Proposed Exclusive Negotiating Agreement (ENA):** CCDC and project proponents are clamoring for the City to enter into an ENA with the Portland, OR developer behind this project. They claim such a move would come at “no risk” to taxpayers.

Unfortunately, my office has learned that the developer would likely seek a clause providing for taxpayer reimbursement of their expenses incurred to date for this

project in the event that the City decides not to proceed. Additionally, the City may be required to reimburse the developer for any further changes to design of the facility – despite the promotion of an ENA to “iron out” any design issues.

Action Item Requested: I request that the City Attorney’s Office review models for ENAs and be prepared to brief the City Council on a vehicle that would provide no financial exposure to taxpayers in the event the City enters into an ENA.

In addition to responding to the financial questions above, I ask the Mayor’s Office to begin work on the implementation details for the “Hold Steady” option. Such a plan would mix aggressive negotiations with a variety of commercial landlords for short-term space with the development of management models for redistributing the City workforce in the most economical and efficient manner.

While I am not endorsing the concept at this time, such a plan may include consideration of shuttering the City Administration Building early, along with the Civic Concourse. Given the list of possible capital expenditures for those two facilities, there may be less expensive options particularly given the short-term nature of our need. I believe this issue warrants further study and examination.

Finally, I do support ongoing discussions with the State, County, Port, and other government entities on more integrated solutions to government office space and would hope the Mayor’s Office would take a leadership role in facilitating those discussions.

While I oppose construction of a new City Hall until our financial problems and neighborhood infrastructure issues can be addressed, I continue to insist that decision-makers be provided with reliable financial modeling, so that a public policy decision based on accurate data and assumptions can be made. I look forward to working with your office in this regard in the coming months.

IRVING HUGHES

Life is a lease. Negotiate well.

May 12, 2009

The Honorable Jerry Sanders
202 C St., 11th Floor
San Diego, CA 92101

Re: Civic Center Redevelopment Proposal

Dear Mayor Sanders and City Councilmembers:

We write to voice our significant concerns over the current proposal to redevelop the downtown Civic Center. From both a professional standpoint as well as that of the taxpayers, we must warn decision-makers that the financial modeling and corresponding advocacy efforts from proponents provide an incredibly misleading conclusion of “cost savings” from building the proposed City Hall.

For the reasons we outline below, it is vital that decision-makers understand that the savings implied by the financial models overstate the costs of the status quo option by at least \$17 million over the first 10 years, and at least \$40 million over the first 15 years. Furthermore, there is likely a proportionate overstatement of lease costs relative to market levels for the Civic Center Plaza. As a result, the costs of the status quo option are likely distorted even further, by millions more dollars over the 10-and 15-year timelines.

As you may know, we each have in excess of 20 years of experience in negotiating leases for a variety of clients in downtown San Diego. We have consistently represented a majority of the downtown tenants in their lease transactions, including having the past representation of the City of San Diego in its leases at 600 B Street, 1010 Second Avenue and 1200 Third Avenue. Recently we were hired by CCDC to represent the agency in their lease negotiations – which ultimately led to its move to 401 B Street. Currently our firm represents more than 40 active tenants in downtown for more than 500,000 square feet of office space.

The assumptions being used in the modeling as they relate to the cost of renewing the City’s downtown leases are simply out of touch with the current state of the downtown rental market. The City is in a tremendously favorable bargaining position, and should use the current market downturn to obtain lease rates that benefit the City and taxpayers, not that seemingly serve to justify constructing a new City Hall. We are also troubled that this disconnect between market conditions and assumptions has allowed proponents to advocate that their project saves the City (and taxpayers) money while attempting to drum up stakeholder support for the project.

IRVING HUGHES

Life is a lease. Negotiate well.

With only limited access to the data and assumptions being used to justify these claims, **we unequivocally conclude that the proposed project will cost significantly more than is being portrayed.** The following points underscore this conclusion:

Landlord Proposals are Not in Line with the Market

In the April 22nd Jones Lang LaSalle (JLL) presentation, figures are provided that show the aggregate variance between the April 2008 JLL estimates and the 2009 landlord proposals. A variance of \$5.5 million (2.9%) for Total Base Rent is provided, while a variance of \$3.3 million (1.9%) is provided for As-Is Rent.

For the Civic Center Plaza, where the City occupies 243,176 square feet, JLL assumes that rental rates increase from \$1.83 to \$2.74 per square foot. In the Executive Complex, where the City occupies 136,321 square feet of space, the model anticipates the costs will escalate from \$2.15 to \$2.74 per square foot.

The fact that proposals received only vary by 2% - 3% from this modeling (not surprising given that any prudent landlord would review the JLL analysis prior to issuing a proposal), and that the updated analysis of the proposal assumes that leases can be negotiated down by another 10%, still does not coincide with current market conditions. These assumptions clearly distort the analysis in favor of proceeding with the project. We strongly urge decision-makers to note the significant amount of savings that can be attributable to the "Hold Steady" scenario below.

Rental Rates Assumed at 90% of Landlord Proposals

According to the JLL "Updated Financial Evaluation Briefing," the rental costs in the baseline Hold Steady scenario reflect "90% of proposed rents provided by landlords" from March of 2009. This assumption significantly overestimates costs in the current market, and inappropriately provides justification for moving forward with the project.

Given current market conditions for downtown San Diego, and using available data on two of the March 2009 proposals, a more appropriate estimate for the Hold Steady option should reflect 50% of the proposed rental rates. As shown below, the difference in cost for the Hold Steady option is significant, and only reflects two of the lease proposals due to data availability. In other words, the savings will likely be significantly higher when the same market conditions are applied to the remaining leases of the City. (Note that tenant improvement allowances have been left out of the table below for simplicity.)

IRVING HUGHES

Life is a lease. Negotiate well.

	Year	Rents @ 90%		Rents @ 75%		Rents @ 50%	
		Exec Complex	600 B	Exec Complex	600 B	Exec Complex	600 B
10 Year	2008						
	2009						
	2010						
	2011						
	2012						
	2013		\$4,551,971		\$3,413,978		\$2,528,873
	2014	\$3,680,667	\$4,688,529	\$3,067,223	\$3,516,397	\$2,044,815	\$2,604,739
2015	\$3,827,894	\$4,829,186	\$3,189,911	\$3,621,889	\$2,126,608	\$2,682,881	
2016	\$3,981,010	\$4,974,062	\$3,317,508	\$3,730,546	\$2,211,672	\$2,763,368	
2017	\$4,140,250	\$5,123,283	\$3,450,209	\$3,842,462	\$2,300,139	\$2,846,269	
15 Year	2018	\$4,305,860	\$5,276,982	\$3,588,217	\$3,957,736	\$2,392,145	\$2,931,657
	2019	\$4,478,094	\$5,435,291	\$3,731,745	\$4,076,468	\$2,487,830	\$3,019,606
	2020	\$4,657,218	\$5,598,349	\$3,881,015	\$4,198,762	\$2,587,344	\$3,110,194
	2021	\$4,843,507	\$5,766,300	\$4,036,256	\$4,324,725	\$2,690,837	\$3,203,500
	2022	\$5,037,247	\$5,939,289	\$4,197,706	\$4,454,467	\$2,798,471	\$3,299,605
Total		\$38,951,746	\$52,183,241	\$32,459,789	\$39,137,431	\$21,639,859	\$28,990,690
10 Year Total		\$15,629,820	\$24,167,030	\$13,024,850	\$18,125,273	\$8,683,234	\$13,426,128
15 Year Total		\$38,951,746	\$52,183,241	\$32,459,789	\$39,137,431	\$21,639,859	\$28,990,690
		10 Year Difference		\$8,646,728		\$17,687,489	
		15 Year Difference		\$19,537,768		\$40,504,439	

*Important Note: The "Year" labels above come directly from the JLL analysis (2008 = Year 1). Data from the lease proposals, however, begins in 2013 and 2014, respectively. It is unclear from the two separate sources (lease proposal data and JLL spreadsheet presentations) how the lease data was merged into the JLL spreadsheet. As a result, we have combined the data in accordance with the years as they are listed in the documents we have reviewed. However, as a result of the difficulty in matching these years appropriately because the lease data is not itemized in the JLL presentation, we have merged the lease data in accordance to the years provided. In short, this means that we are likely **underestimating** the 10 and 15 year differences by a significant amount. However, the spreadsheet above represents our desire to remain conservative, given the available data.*

According to the Jones Lang LaSalle analysis, the 600 B lease of 153,265 square feet is scheduled to expire in 2013. The estimated renewal rates increase to \$2.75 per square foot (PSF)

IRVING HUGHES

Life is a lease. Negotiate well.

beginning in 2013, with approximately 3% annual increases until 2022. This is completely misaligned with current market rates for similar space.

The table above shows how applying realistic market conditions significantly alters the validity of savings claims by proponents over the first 10 and 15 years of the project timeline. Before taking any similar difference from remaining City lease locations (i.e. the Civic Center Plaza, for which actual lease proposal data is unavailable to us), the 15-year savings to the Hold Steady scenario compared to the proposal to build a new City Hall **exceed \$40 million over the first 15 years of the JLL analysis.**

Furthermore, the initial JLL analysis of the Civic Center Plaza lease rates anticipates that in 2014, the rates will jump from \$1.83 to \$2.74. The current market rate for such space should be around \$1.50, indicating that even more significant savings are available to the City if it renews its leases at market-appropriate levels.

Rent Escalations

In the assumptions section of the JLL report, market leases are estimated to increase 2.50% annually, with a 20%, 10-year “Rate Reset” for FSG Leases. This equates to rental increases of 4.5% annually – for 30+ years! This is completely inconsistent with reality, especially since we’ve seen the rental market decrease by 40% just over the last 12 months!

The City Faces Risks by Entering into an Exclusive Negotiating Agreement

The opposition to moving forward with this project has been based on the City’s current financial difficulties. To respond to this opposition, proponents have reinforced their efforts to assert that the proposal will save the City money.

Despite the increased efforts of proponents to indicate otherwise, the proposal to redevelop the Civic Center will not save the City money relative to pursuing other alternatives. Our rough estimates indicate that costs associated with the Hold Steady scenario are inflated by well over \$40 million.

Furthermore, it is possible that the developer would seek at least partial reimbursement for the cost of its efforts thus far in the event that an agreement to undertake the project is not reached. It is also our understanding that any further changes to the project, such as design, that may be required to fit the City’s needs will have to be paid by the City. These particular points would be conditions set out in an Exclusive Negotiating Agreement (ENA), but are in stark contrast to the notion that there is “no risk” to the City in entering into such an agreement.

We urge the Mayor and Council to consider these concerns before proceeding with an ENA. It is imperative that the Mayor and City Council scrutinize the cost savings being touted by

IRVING HUGHES

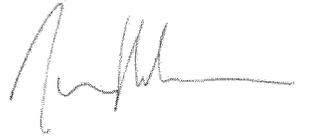
Life is a lease. Negotiate well.

proponents. City decision-makers must approach the decision to move forward with such an agreement with appropriate and accurate background information. For the reasons laid out above, we do not believe that an accurate comparison of the City's options has been made available to date. Please do not hesitate to contact us to discuss this matter further.

Sincerely,



Craig Irving
Principal



Jason Hughes
Principal



COUNCILMEMBER CARL DeMAIO

FIFTH DISTRICT
CITY OF SAN DIEGO

MEMORANDUM

DATE: April 23, 2009

TO: Jeff Graham, Vice President - Redevelopment, CCDC

VIA: Councilmember Carl DeMaio *Carl DeMaio*

FROM: Tom Aaron, Budget and Policy Advisor, Council District 5

RE: Updated JLL Civic Center Redevelopment Financial Models

As you know, our office has been vocal in raising concerns regarding the proposed Civic Center redevelopment project. Regardless of our policy position, however, we feel it is essential that both stakeholders and decision-makers are presented with sufficiently vetted and impartial analysis.

When the proposal for a new City Hall was first revealed, our office raised several concerns with the original financial analysis – concerns which were ultimately validated by the recent peer review.

Now, our office would like to raise additional concerns regarding assumptions used in the latest financial modeling. In particular, these concerns call into question some of the “savings” claimed in the presentation materials. As such, we respectfully request a written response addressing these concerns.

Furthermore, it has come to our attention that in addition to today’s scheduled public hearing, CCDC representatives will be taking part in stakeholder outreach efforts on the updated financial projections as early as this week. Once the questions and concerns expressed below are adequately addressed, we ask that outreach efforts reflect necessary edits as soon as possible.



Annual Financial Projections:

On pages 18 – 21 of the “Updated Financial Evaluation Briefing” prepared and presented by JLL, annual expense comparisons between development and the Hold Steady scenario are provided. Examining the calculation of “Net Costs” between development and Hold Steady reveals that revenue offsets, particularly “Master Lease Income” are applied to the development proposal. This yields annual net costs of approximately \$25 - \$30 million under the development scenario, depending on whether Alternative B or D is used. Importantly, our office has been informed that the development alternatives assume 193,000 square feet of excess space in 2013 to create cost mitigating revenue for the project.

In comparison, in the Hold Steady scenario, a new City Hall is occupied in Year 10 (2018), with the City experiencing annual net costs of approximately \$40 million. This is significantly greater than the annual net costs of \$25-\$30 million attributed to the Gerding Development Alternatives discussed above.

As CCDC has indicated to our office, only 40,000 square feet of excess space has been assumed for the new City Hall in the Hold Steady scenario (compared to 193,000 square feet mentioned above). As a result, the available amount of cost mitigating revenue is significantly less in the Hold Steady scenario, which increases its costs, and amplifies the value of “15 Year Savings” provided in the JLL presentation.

Given the uncertainty of the specific aspects of future proposals relating to cost mitigating revenue, the assumptions used in the updated models where a smaller, “build-to-suit,” development with far less excess space provide a useful depiction of cost comparisons over the 15 year term. However, only recognizing this approach ignores the potential for the City to receive a similar development proposal several years down the line. Furthermore, assuming such a drastically lower amount of excess space in the Hold Steady City Hall significantly increases the amount of 15 year savings.

The table below adjusts the 15 year savings figures provided in each scenario by \$34.7 million. This is equivalent to the sum of Master Lease Income in the years 2013 – 2017 attributed to the Gerding scenarios.

Proposal Comparison to "Hold Steady"				
	"B" Full Development		"D" Phase 1 Only	
	Minimum	Maximum	Minimum	Maximum
10 - Year	(\$21.9)	(\$8.5)	(\$26.2)	(\$12.8)
15 - Year (JLL Presentation)	\$44.8	\$58.2	\$26.9	\$40.3
15 - Year Adjusted	\$10.1	\$23.5	(\$7.8)	\$5.6

Note: Given that 40,000 square feet of revenue offsets are already included in the Hold Steady scenario, it may be prudent to use an adjustment of offsetting revenue for only the remaining square foot variance (153,000 square feet). If appropriate, this would result in an adjustment of savings/costs by less than the \$34.7 million amount used in the table above, but would still change the 15 year cost savings significantly.

As the table shows, adjusting the 15 year scenario by the full \$34.7 million of Master Lease offsets changes the conclusions of 15 year cost savings. Upon adjustment, the new range provides for savings of \$23.5 million in at best, but a cost increase over 15 years of \$7.8 million at worst. By comparison, the JLL presentation provides for a range of savings from \$26.9 million to \$58.2 million over a 15 year period.

Unless the interpretation provided above is shown to be inaccurate, we request that the presentation include further sensitivity analysis, providing annual cash flow projections for the Hold Steady scenario in the event that a similar development proposal is received for the Hold Steady City Hall. The conclusions regarding 15 year cost savings should also be adjusted accordingly, and presented as a potential range.

Minimum and Maximum Capital Expenditures Analysis:

On page 15 of the JLL report, values are provided for minimum and maximum capital expenditures under the Gerding development alternatives and the Hold Steady scenario. While the application of this approach to the financial modeling is commendable, the Gerding "Minimum" value of \$0 appears to unfairly benefit development. As recommended by the Ernst & Young third party review, The Hold Steady option requires "an emergency building renovation fund for building repairs on owned facilities" of \$1 million per year. This fund is for "unexpected capital improvement needs as a result of deteriorating conditions" on City buildings.

However, the City will continue to occupy the current buildings under the Gerding proposal in the short term as well. It appears unbalanced to assume that for the short-term (5 years), the emergency reserve would not be required under the development scenario.

While expending funds on improving or maintaining any building in its last years of life certainly is undesirable, the emergency fund is recommended to maintain functionality. Since functionality must be maintained in the short term under any scenario, should the Gerding 5 year "Minimum" capital expenditure analysis at least include an emergency reserve for functionality similar to Hold Steady?

Updated JLL Civic Center Redevelopment Financial Models
Page Four
April 23, 2009

Ensuring a balanced and accurate analysis of the City's short and long term options for office space moving forward is a high priority for our office. To this end, we respectfully request that the above expressed concerns are addressed - and if appropriate, incorporated into the overall conclusion of the report - prior to further claims of "cost savings" over a 15 year period.

CC: Honorable Mayor Jerry Sanders
Honorable City Councilmembers
Andrea Tevlin, Independent Budget Analyst
Fred Maas, Chair, CCDC Board of Directors

MEMORANDUM

DATE: MAY 4, 2009

TO: COUNCILMEMBER CARL DEMAIIO – COUNCIL DISTRICT 5
TOM AARON, COUNCIL REPRESENTATIVE/BUDGET ANALYST–
DISTRICT 5

FROM: JEFF W. GRAHAM, VICE PRESIDENT-REDEVELOPMENT 

SUBJECT: UPDATED CIVIC CENTER COMPLEX FINANCIAL PROJECTIONS

I am in receipt of your memorandum dated April 23, 2009 regarding the updated Civic Center Complex financial projections prepared by Jones Lang LaSalle (JLL). In your correspondence, you request a clarification of certain financial assumptions used in the projections and possible additional sensitivity analyses performed. Specifically, you address the following two issues:

1. Differing Assumptions for New City Hall Development Program:

As you correctly identify, differing development program assumptions were assumed in the JLL financial projections for the Gerding Edlen Development (GED) alternatives versus the Non-development Alternative 5 - "Hold Steady" alternative. Throughout the extensive analysis performed on the City's occupancy alternatives, both Centre City Development Corporation (CCDC) staff and JLL have strived, to the greatest extent possible, to base the financial projections on one or more of the following: supporting market and economic data, information retrieved directly from the developer proposal or lease documents and landlord renewal proposals. Both CCDC staff and JLL have avoided including speculative or hypothetical development, sales, other assumptions not supported by a proposal or other data in the analysis. For instance, in the GED Phase One Only alternatives (GED C and D), no assumption was made about the City's ability to sell or lease the two excess blocks (Parkade and COB) to another developer for additional revenue, nor was any revenue included in the analysis.

Applying the above approach led to the following development program assumptions for the GED and "Hold Steady" alternatives.

Councilmember Carl DeMaio
Mr. Tom Aaron
May 4, 2009
Page 2

Gerding Edlen Alternatives A – D

The GED proposal provides the City with a full public-private partnership delivery approach with benefits and risks shared between the developer and the City. Based on GED Alternatives A through D, which are variations of the GED proposal, the City is responsible for lease payments over 30 years on the entire 853,000 SF building in order to receive favorable financing terms. Upon retirement of the debt, ownership of the entire building transfers to the City. During the 30-year lease term, GED is proposing to offset the City's cost of carrying the obligation on the entire building by assuming the risk and cost of master leasing the space not occupied by the City.

Based on the Gensler Facilities Needs Assessment, the City is estimated to require approximately 660,000 USF of space upon initial occupancy. Therefore, the GED master lease is assumed to cover 193,000 USF of office space, the balance not needed by the City. As staffing and space requirements increase over the 30-year debt service period, the City's net lease obligation increases in proportion to the additional space occupied, while the master lease income decreases.

In other words, the master lease income received by City from GED is not a net revenue generating source but rather a mere dollar-for-dollar offset of the City's costs for the additional, but unneeded space. It is a mitigation of the City's lease costs on the entire building until needed by the City.

In addition, the GED proposal also provided options that consider the City's financial obligation only on its occupied space (GED Alternatives E-G), in which a vertical parcel map creates two separate ownership blocks within the building and GED is directly responsible for the portion not occupied by the City, thus resulting in no master lease revenue.

Non-development Alternative 5 - "Hold Steady"

As your memorandum correctly states, the new City Hall modeled in Alternative 5 - "Hold Steady" assumes the facility will be developed using a delivery method similar to a "build-to-suit" rather than a public-private partnership absent an actual development proposal at this time for delivery in 10 years.

Consistent with all other non-development alternatives: Using a "build-to-suit" delivery method in Alternative 5 is consistent with the modeling approach used in each of the other non-development alternatives from the date the initial non-development analyses were prepared in May 2008. The approach taken in the "Hold Steady" scenario is the proposed delivery of a building in 2018 sufficient in size to accommodate the City's occupancy requirements for 15 years (through 2032). This results in approximately 40,000 USF of excess space for the first five years of occupancy; the City migrates into the balance of the building's space thereafter. The assumption was made that 80% of

Councilmember Carl DeMaio
Mr. Tom Aaron
May 4, 2009
Page 3

the excess space (32,000 USF) would be leased to other tenants directly by the City during the five-year period (not a master lease with a developer). Again, absent a proposal at this time from a developer to assume the financial obligations and risk of master leasing the vacant space for a building not proposed for another 10 years, a "build-to-suit" is a more typical delivery method and consistent with avoiding speculative assumptions.

No net change in results: However, it is important to note that even if Alternative 5 were modeled similarly to the GED alternatives with a developer assuming the master lease obligations for the unneeded space, the master lease revenues received by the City would merely be a direct offset of increased costs to construct the additional space. In other words, it would result in no net change to the annual cost projections of Alternative 5.

2. Minimum and Maximum Capital Expenditures Analysis

Your memorandum questions the minimum amount of \$0 assumed for capital expenditures over the next 5 years in the GED alternatives versus the \$13.2 million minimum assumed in Alternative 5 - "Hold Steady" over the next 10 years.

The estimated cost of necessary capital expenditures required in the City-owned buildings over the next 10 years is a value with a considerable degree of variance. The cost estimates used in the JLL cost projections were based on the very extensive Condition Assessment Report prepared by DM&JM | AECOM. That report, however, was prepared to determine the extent of renovations required to extend the useful life of the buildings for the longest period possible (30 years), not as a short term solution pending building replacement within 5 to 10 years.

Absent a more focused condition assessment and cost estimate based on the next 5 to 10 years, JLL believed it was reasonable, albeit optimistic, to assume foregoing any fire sprinkler installation and major capital improvements and repairs for the next 5 years pending the imminent delivery of a new City Hall in 2014. To address your concern that zero capital improvement costs were assumed, JLL also performed a sensitivity analysis at the upper end of the potential cost range of \$23.3 million over the next 5 years.

The request recently received by CCDC from Mayor Sanders and Councilmember Faulconer to commission a more focused condition and cost assessment over the next 5 and 10 year period will, I believe, address our concerns. CCDC will direct DMJM | AECOM to perform the short term focused study and those results will be substituted for the range of costs currently assumed in the GED and "Hold Steady" alternatives. We believe the revised condition assessment can be completed within 10 business days. Once the financial analysis is revised, all public presentation material shall be immediately updated to reflect the revised analysis results.

Councilmember Carl DeMaio
Mr. Tom Aaron
May 4, 2009
Page 4

5 and 10 year period will, I believe, address our concerns. CCDC will direct DMJM | AECOM to perform the short term focused study and those results will be substituted for the range of costs currently assumed in the GED and "Hold Steady" alternatives. We believe the revised condition assessment can be completed within 10 business days. Once the financial analysis is revised, all public presentation material shall be immediately updated to reflect the revised analysis results.

Please let me know if I have misunderstood or not addressed any of your concerns. Thank you for your continued efforts in reviewing the JLL analysis to ensure that it meets all tests of objectivity and accuracy.

cc: Honorable Mayor Jerry Sanders
Honorable City Councilmembers
Andrea Tevlin, Independent Budget Analyst
Fred Maas